

# Chemstar Indonesia Tbk (CHEM IJ)

## Focuses on Textile Auxiliaries Products

Initiation Report | Jul. 8, 2022

### Buy

<b>Target Price (IDR)</b>	<b>300</b>
Consensus Price (IDR)	N/A
TP to Consensus Price vs. Last Price	N/A
	100.0%

#### Shares data

Last Price (IDR)	150
Price Date as of	Jun. 24, 2022
52 wk Range (Hi/Low)	N/A
Free Float (%)	29.4
Outstanding sh.(mn)	1,700
Market Cap (IDR bn)	255
Market Cap (USD mn)	17
Avg. Trd Vol - 3M (mn)	N/A
Avg. Trd Val - 3M (bn)	N/A
Foreign Ownership	0.0%

#### Basic Materials

Basic Material	
Bloomberg	CHEM IJ
Reuters	CHEM.JK

CHEM is a producer of supporting chemicals, an important chain of the Indonesian textile industry, which produces High Performance Textiles with plans to expand into the cosmetics and F&B industries. The B2B strategy becomes Recurring Income, and the Purchase Order system can increase Cost Efficiency. NHKSI Research sees the expansion of CHEM supported by factory utilization which has only reached 50%, and 10% growth of the textile industry in 2022, as Supply-Chain Shock continues.

#### High Demand for Textile Auxiliaries Products

With a focus on Textile Auxiliaries products, CHEM is in a strategic position. Currently, Textile Auxiliaries only meet 3% of the Indonesian market demand. CHEM's factory is located in Jatiluhur, Purwakarta, on an integrated distribution route via the Jakarta-Bandung-Central Java toll road to East Java. With the utilization of CHEM factory only reaching 50%, we assume that the production capacity of powder and liquid products can be increased to around 1,170 tons per month and 19,500 tons per month, respectively, in line with the increasing demand for the textile industry. We expect FY22 sales to grow 14% to over IDR 100 billion, as the Supply-Chain Shock persists.

#### Diversified Recurring Income

Large diversification of consumers with some being: Ateja, Kahatex, Indorama, Duniatex, Centex, and Indah Jaya, is a competitive advantage, as CHEM provides B2B-specific specification products. Product customization according to consumer specifications is the Company's recurring income. CHEM's quality standards are maintained to meet the demands of global brand manufacturers, including: Adidas, Nike, Uniqlo and Marks & Spencer. In addition to the downstream sector expansion plan, textile coloring, CHEM is also developing business operations in the cosmetic and F&B industry.

#### Purchase Order B2B Boosts Cost Efficiency

In addition to the B2B strategy, the Purchase Order system is crucial in the textile industry which has different specifications and tends to follow trends. The combination of the two makes CHEM efficient in the use of raw materials. In addition to maximizing the use of local raw materials, the strategic location of the factory, close to major textile producers, allows CHEM to reduce logistics transportation costs and ultimately increase Cost Efficiency. We project CHEM to be able to record an NPM of 18.0% FY22 (Vs. FY21 14.5%). CHEM is also part of the Net Zero Hub, with a target of 29% decarbonization by 2030. In addition, the textile support industry is required to increase manufacturing productivity in the Road Map Making Indonesia 4.0.

#### Supply-Chain Shock Influences Domestic Demand

CHEM's factory capacity utilization can be increased up to 85%, to meet the textile industry's demand which is projected to grow more than 10% in 2022. Supply-Chain Shock due to imports from China, along with the energy crisis and high logistics tariffs, have made the domestic textile industry's demand unmet. NHKSI Research recommends Buy for CHEM with TP at IDR 300, assuming PER and PBV at 19.6x and 2.0x, respectively. We continue to monitor risks to imports of raw materials, such as the rupiah exchange rate, changes in trade policies between countries, to geo-political influences.

#### Chemstar Indonesia Tbk | Summary

in IDR mn	2021/12F	2022/12F	2023/12F	2024/12F
Sales	89,624	102,171	117,497	137,471
<i>Sales growth</i>	13.0%	14.0%	15.0%	17.0%
EBITDA	20,506	27,899	36,944	45,203
Net profit	12,968	18,365	24,743	30,292
EPS (IDR)	11	15	21	25
<i>EPS growth</i>	191.3%	41.6%	34.7%	22.4%
BVPS (IDR)	149	151	153	155
EBITDA margin	22.9%	27.3%	31.4%	32.9%
NPM	14.5%	18.0%	21.1%	22.0%
ROE	30.8%	43.0%	57.4%	69.4%
ROA	15.6%	19.9%	24.2%	25.6%
ROIC	22.3%	29.1%	38.7%	46.5%
P/E	13.9x	19.6x	19.6x	19.6x
P/BV	1.0x	2.0x	2.6x	3.2x
EV/EBITDA	1.2x	0.8x	0.6x	0.0x

Unit: IDR Mn, %, x

Source: Company Prospectus, NHKSI Research

Please consider the rating criteria & important disclaimer

	YTD	1M	3M	12M
Abs. Ret.	N/A	N/A	N/A	N/A
Rel. Ret.	N/A	N/A	N/A	N/A

#### Arief Machrus

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## Summary of Financials

INCOME STATEMENT					PROFITABILITY & STABILITY				
(IDR mn)	2021/12A	2022/12F	2023/12F	2024/12F		2021/12A	2022/12F	2023/12F	2024/12F
<b>Sales</b>	<b>89,624</b>	<b>102,171</b>	<b>117,497</b>	<b>137,471</b>	ROE	30.8%	43.0%	57.4%	69.4%
<i>Growth</i>	<i>13.0%</i>	<i>14.0%</i>	<i>15.0%</i>	<i>17.0%</i>	ROA	15.6%	19.9%	24.2%	25.6%
COGS	(54,409)	(55,172)	(59,923)	(67,361)	ROIC	22.3%	29.1%	38.7%	46.5%
<b>Gross Profit</b>	<b>35,214</b>	<b>46,999</b>	<b>57,573</b>	<b>70,110</b>	Cash Dividend (IDR bn)	N/A	N/A	N/A	N/A
<i>Gross Margin</i>	<i>39.3%</i>	<i>46.0%</i>	<i>49.0%</i>	<i>51.0%</i>	Dividend Yield	N/A	N/A	N/A	N/A
Operating Expenses	(14,730)	(19,121)	(20,650)	(24,944)	Payout Ratio	N/A	N/A	N/A	N/A
<b>EBIT</b>	<b>20,485</b>	<b>27,877</b>	<b>36,923</b>	<b>45,166</b>	DER	69.7%	69.7%	69.7%	69.7%
<i>EBIT Margin</i>	<i>22.9%</i>	<i>27.3%</i>	<i>31.4%</i>	<i>32.9%</i>	Net Gearing	70.2%	70.3%	70.5%	70.8%
Depreciation	21	21	21	37	LT Debt to Equity	3.0%	3.0%	3.0%	3.0%
<b>EBITDA</b>	<b>20,506</b>	<b>27,899</b>	<b>36,944</b>	<b>45,203</b>	Capitalization Ratio	41.1%	41.1%	41.1%	41.1%
<i>EBITDA Margin</i>	<i>22.9%</i>	<i>27.3%</i>	<i>31.4%</i>	<i>32.9%</i>	Equity Ratio	46.5%	45.4%	39.2%	34.6%
Interest Expenses	533	1,159	853	1,024	Debt Ratio	32.4%	31.7%	27.3%	24.1%
<b>EBT</b>	<b>16,614</b>	<b>24,235</b>	<b>32,255</b>	<b>39,730</b>	Financial Leverage	235.4%	255.1%	255.2%	289.3%
Income Tax	(3,714)	(5,870)	(7,512)	(9,438)	Current Ratio	184.1%	156.0%	115.0%	72.6%
Minority Interest	-	-	-	-	Par Value (IDR)	25	25	25	25
<b>Net Profit</b>	<b>12,968</b>	<b>18,365</b>	<b>24,743</b>	<b>30,292</b>	Total Shares (mn)	282	282	282	282
<i>Growth</i>	<i>191.3%</i>	<i>41.6%</i>	<i>34.7%</i>	<i>22.4%</i>	Share Price (IDR)	150	300	404	495
<i>Net Profit Margin</i>	<i>14.5%</i>	<i>18.0%</i>	<i>21.1%</i>	<i>22.0%</i>	Market Cap (IDR tn)	0.0	0.1	0.1	0.1

BALANCE SHEET					VALUATION INDEX				
(IDR mn)	2021/12A	2022/12F	2023/12F	2024/12F		2021/12A	2022/12F	2023/12F	2024/12F
Cash	5,412	5,803	8,122	9,576	Price /Earnings	13.9x	19.6x	19.6x	19.6x
Receivables	42,565	37,430	31,566	12,833	Price /Book Value	1.0x	2.0x	2.6x	3.2x
Inventories	31,856	20,174	22,208	25,434	Price/Sales	0.0x	0.0x	0.0x	0.0x
<b>Total Current Assets</b>	<b>81,255</b>	<b>64,971</b>	<b>64,552</b>	<b>51,771</b>	PE/EPS Growth	0.1x	0.5x	0.6x	0.9x
Net Fixed Assets	5,733	25,355	41,466	70,384	EV/EBITDA	1.2x	0.8x	0.6x	0.0x
Other Non Current Assets	5,733	25,355	41,466	70,384	EV/EBIT	1.2x	0.8x	0.6x	0.0x
<b>Total Assets</b>	<b>90,599</b>	<b>94,119</b>	<b>110,000</b>	<b>126,336</b>	EV (IDR bn)	24,406	22,484	21,641	140
Payables	12,089	8,771	22,948	37,667	Sales CAGR (3-Yr)	N/A	N/A	10.4%	20.1%
ST Bank Loan	28,091	28,525	28,762	29,140	EPS CAGR (3-Yr)	N/A	N/A	84.2%	89.5%
LT Debt	1,263	1,282	1,293	1,310	Basic EPS (IDR)	11	15	21	25
<b>Total Liabilities</b>	<b>48,498</b>	<b>51,368</b>	<b>66,894</b>	<b>82,664</b>	Diluted EPS (IDR)	11	15	21	25
Capital Stock & APIC	30,000	30,000	30,000	30,000	BVPS (IDR)	149	151	153	155
Retained Earnings	11,802	12,392	12,640	13,019	Sales PS (IDR)	317,559	362,017	416,320	487,094
<b>Shareholders' Equity</b>	<b>42,101</b>	<b>42,751</b>	<b>43,106</b>	<b>43,672</b>	DPS (IDR)	N/A	N/A	N/A	N/A

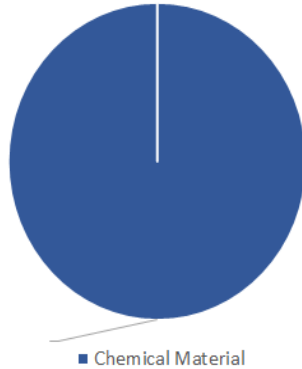
  

CASH FLOW STATEMENT					OWNERSHIP		
(IDR mn)	2021/12A	2022/12F	2023/12F	2024/12F	By Geography	% Shareholders	%
Operating Cash Flow	(2,905)	16,724	46,781	67,535	Indonesia	100.0	PT Tunas Bahtera Har
Investing Cash Flow	(335)	(25,100)	(20,325)	(36,748)	Others	-	Kwee Sutrimo
Financing Cash Flow	(4,957)	8,345	356	581			Eko Muljono Suprpto
<b>Net Changes in Cash</b>	<b>(8,197)</b>	<b>(32)</b>	<b>26,812</b>	<b>31,368</b>			Others

Source: Company Prospectus, NHKSI Research

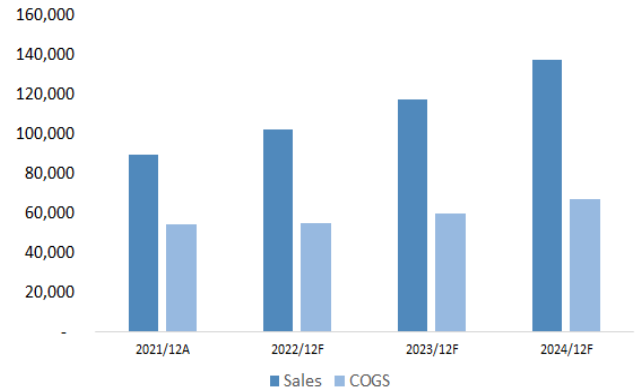
## Key Charts

### Sales Breakdown



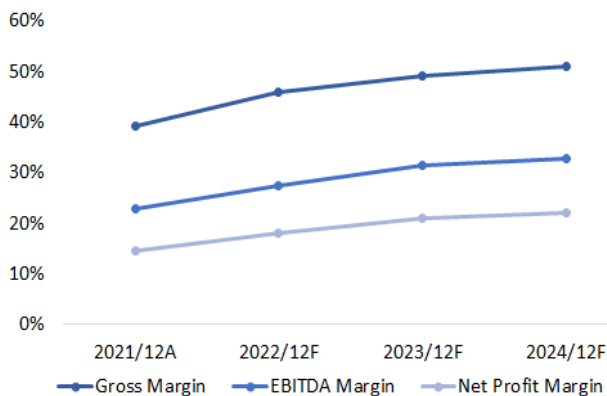
Source: Company Prospectus, NHKSI Research

### Sales Vs. COGS



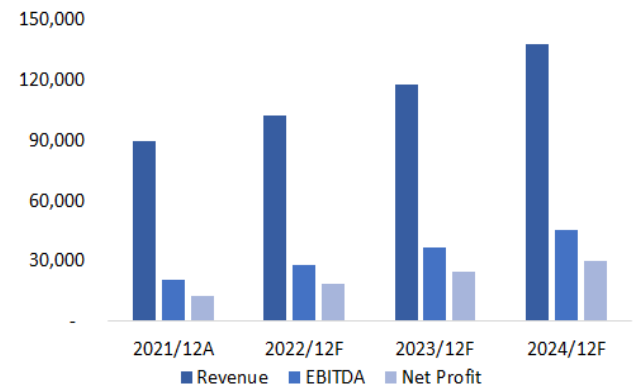
Source: Company Prospectus, NHKSI Research

### Margin Ratio



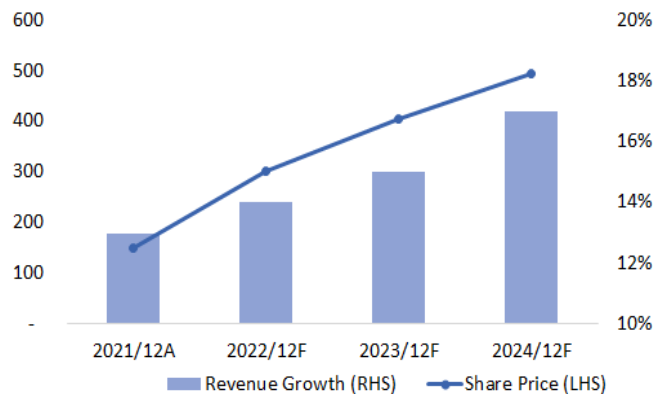
Source: Company Prospectus, NHKSI Research

### Revenue / EBITDA / Net Profit (IDR Mn)



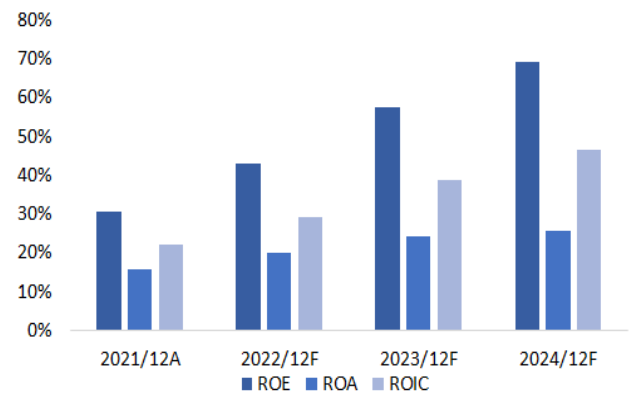
Source: Company Prospectus, NHKSI Research

### Share Price Vs. Revenues Growth



Source: Company Prospectus, NHKSI Research

### Profitability Ratio



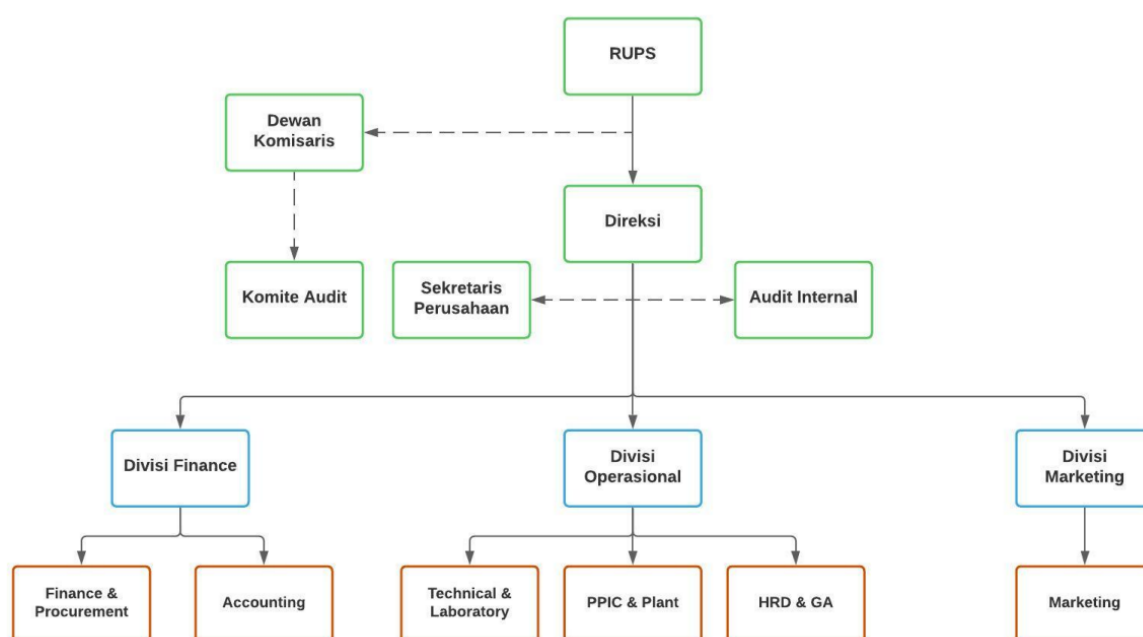
Source: Company Prospectus, NHKSI Research

## Company Profile

### Chemstar Indonesia at A Glance

PT Chemstar Indonesia Tbk (the Company) (CHEM) was established in 2004. CHEM is a chemical manufacturing and trading company for the textile, leather, plastic, and similar industries. Meanwhile, the supporting business activities are general chemical trading. In the future, CHEM plans to expand its business operations in the chemical industry for spinning, weaving and entering the downstream sector, textile dyeing. CHEM also plans to expand its business operations in the F&B sector.

### Company Organizational Structure



Source: Company Prospectus

### Business Segments

Most of the products that CHEM sells are products with special specifications (B2B), and only a few are available in the market. Meanwhile, CHEM's customers are well diversified, with a number of large consumers such as: Ateja, Kahatex, Indorama (INDR), Duniatex, Centex, Indah Jaya, and others. CHEM is also a distributor of leading international chemical companies, such as: Tanatex Chemicals Holland and Transfar International China. On the other hand, the sales system through Purchase Orders, or product customization according to the specifications of consumer demand, as well as the minimum number of competitors in the industry are added values for CHEM.

### Chemstar Indonesia Capital Structure

Ownership	Number of Shares	Percentage (%)
PT Tunas Bahtera Harum	1,164,000,000	97.00
Kwee Sutrimo	12,000,000	1.00
Eko Muljono Suprpto	12,000,000	1.00
Ir. Wim Zulkarnaen	12,000,000	1.00

Source: Company Prospectus, NHKS Research

## Business Model

### Main Business Activities

CHEM has a one stop service providing all textile production needs. The production process starts from spinning, or processing the basic material in the form of yarn, which then proceeds to the next stage, namely sizing, weaving knitting, pre-treatment, dyeing, printing, finishing, to coating for the final product in the form of ready-to-use and high-quality textile fabrics.

### Textile Manufacturing Process

Spinning	Weaving	Knitting	Pre-Treatment	Dyeing	Printing	Finishing	Coating
<ul style="list-style-type: none"> <li>●ESKAOL Series</li> <li>●TF Products Series</li> <li>●Tanatex Products Series</li> </ul>	<ul style="list-style-type: none"> <li>●CHEMSIZE Series</li> </ul>	<ul style="list-style-type: none"> <li>●ESKAOL Series</li> <li>●TF Series</li> </ul>	<ul style="list-style-type: none"> <li>●DEMULGEN</li> <li>●EKAPOL</li> <li>●ESKALET</li> <li>●STARBLITZ</li> <li>●ESKAFOAM Series</li> <li>●TF Series</li> <li>●Tanatex Series</li> </ul>	<ul style="list-style-type: none"> <li>●DEMULGEN</li> <li>●EKAPOL</li> <li>●ESKALET</li> <li>●ESKACID</li> <li>●ESKAPLUS</li> <li>●ESKAFOAM</li> <li>●ESKATOP</li> <li>●DOMACRON</li> <li>●DOMAFIX</li> </ul>	<ul style="list-style-type: none"> <li>●ESKAPRINT</li> <li>●ESKASOFT</li> <li>●DEMULTEX</li> <li>●ESKACIDE</li> <li>●ESKAFOAM</li> <li>●DOMACRON</li> <li>●DOMAFIX</li> <li>●DOMACID Series</li> <li>●TF Series</li> <li>●Tanatex Series</li> </ul>	<ul style="list-style-type: none"> <li>●ESKASOFT</li> <li>●ESKAFINISH</li> <li>●ESKAGUARD</li> <li>●ESKAOIL</li> <li>●ESKAFOAM Series</li> <li>●TF Series</li> <li>●Tanatex Series</li> </ul>	<ul style="list-style-type: none"> <li>●DEMULCOAT</li> <li>●ESKAFOAM</li> <li>●ESKAGUARD series</li> <li>●TF Series</li> <li>●Tanatex Series</li> </ul>

Source: Company Prospectus

### Customers

 PT. Kahatex	 PT. Ateja	 PT. Istem Toray	 PT. Gunze Indonesia
 PT. Asietex Sinar Indopratama	 PT. Tokai Texprint Indonesia	 PT. Dan Liris	 PT. Winner Sumbiri
 PT. Tantra Textile Industry	 PT. Century Textile Industry	 PT. Lucky Print Abadi	 PT. Indah Jaya Textile Indonesia
 PT. Popular Daenong	 PT. Indorama Synthetics	 PT. Nisshinbo Indonesia	 PT. Sunjin Textile

Source: Company Prospectus



### Production Facility

The Company has a production facility located in Purwakarta, a strategic industrial location and is crossed by a provincial road facilitating the flow of distribution. This production facility is also close to the port to speed up shipping access between islands. The Company's production facility stands on an area of 5,360 m<sup>2</sup>. The production facilities owned by the Company are as follows:



**Raw Material Storage Warehouse**



**Production Plant**



**Finished Product Storage Warehouse**



**Research and Development Laboratory**



**Logistics Fleet**



**Waste Management Facility**

Source: Company Prospectus, NHKSI Research

## Management Background

### Board of Commissioner



#### **Ir. Wim Zulkarnaen**

##### **President Commissioner**

Indonesian citizen, 75 years old, obtained the title of Textile Chemical Engineer from the Textile Technology Institute in 1976. Currently serving as Commissioner of the Company since 2014.

##### **Work Experiences**

2022-present : Company President Commissioner  
 2014-2021 : Company Commissioner  
 2005-2014 : Company President Director  
 2006-2010 : Representative of the Society of Dyers and Colourists, England in Indonesia  
 2001-2004 : Marketing Director, PT Dystar Colour



#### **Eko Muljono Suprpto**

##### **Commissioner**

Indonesian citizen, 57 years old, obtained a Bachelor's degree in Chemical Engineering from Diponegoro University in 1997. He is currently serving as Commissioner of the Company since 2020.

##### **Work Experiences**

2020-present : Company Commissioner  
 2014-2020 : Company Director  
 2004-2014 : Company President Commissioner  
 1998-2003 : Commissioner  
 1988-1998 : Technical Sales, PT Aneka Kimia Raya



#### **Eko Pratikto**

##### **Independent Commissioner**

Indonesian citizen, 66 years old, earned an MBA in Marketing from JIMS IPWI in 1999. Currently serving as an Independent Commissioner of the Company since 2022.

##### **Work Experiences**

2022-present : Independent Commissioner  
 2017-present : Member of Working Group Chemical Weapons Convention-OTNAS  
 2014-present : Lead Verifier and member of verification team at Responsible Care Indonesia Verifier  
 2015-present : President Director, PT Tri Cipta Anugerah  
 1984-2013 : Technical Director, PT Dystar Colours Indonesia  
 1982-1984 : Deputy Department Head, PT Indo Bharat Rayon  
 1979-1982 : Senior Day Supervisor, PT Allied Pacific Dychem  
 1979 : Sub-Section Head, PT Dan Liris

## Management Background

### Board of Director

**Kwee Sutrimo****President Director**

Indonesian citizen, 51 years old, obtained his D3 Textile Chemistry from the University of Bandung Raya in 1994. Currently, he has served as the President Director of the Company since 2020 and has a term of office of up to five years in accordance with the articles of association.

**Work Experiences**

2020-present : Company President Director  
2014-2020 : Company Director  
1998-2013 : Director, PT Karya Agung Cemerlang  
1994-1998 : Marketing, PT Aneka Kimia Raya

**Tony Widjaja****Director**

Indonesian citizen, 48 years old, obtained a Bachelor's degree in Computer Accounting from Bina Nusantara University in 2000. He currently serves as Director of the Company since 2022 and has a term of office of up to five years in accordance with the articles of association.

**Work Experiences**

2022-present : Company Director  
2002-2021 : Company Finance Manager  
2002-2004 : Accounting and Tax Manager, PT Mitra Dana Sedaya  
2000-2002 : Senior Auditor, KAP Permana and Partners

**Lusi****Director**

Indonesian citizen aged 50 years, obtained a Bachelor's degree in Chemical Engineering from the National Institute of Technology in 1995. Currently serving as Director of the Company since 2021 and has a term of office of up to five years in accordance with the articles of association.

**Work Experiences**

2021-present : Company Director  
2003-2021 : Company Marketing Manager  
2001-2003 : Marketing, PT Karya Agung Cemerlang  
1996-2001 : Marketing & Lab., PT Aneka Kimia Raya

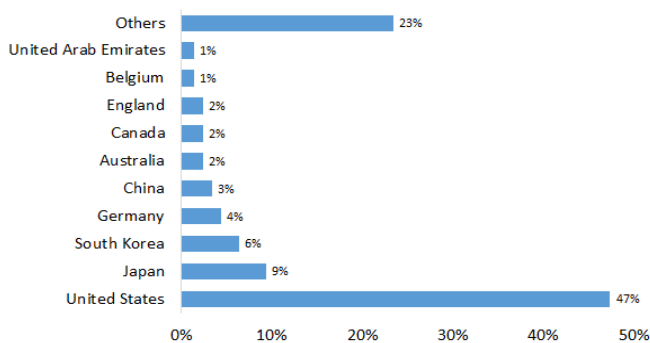


## Industry Outlook

Producers of supporting chemicals are an important chain of growth for the Indonesian Textile industry as a whole. Currently, the Textile industry is one of seven industries that are a priority for development and readiness to enter the Road Map Making Indonesia 4.0. The seven potential sectors are: F&B, Textile and Garment, Automotive, Electronics, Chemical, Medical Devices and Pharmacy industries.

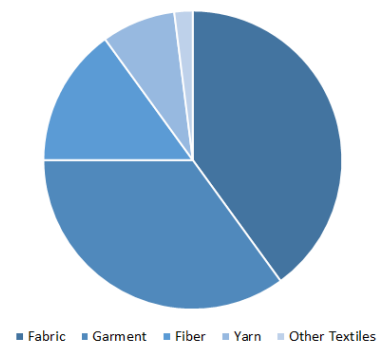
To fulfill the Road Map, the Textile industry's strategies include: (1) increasing capabilities in the upstream sector, focusing on the production of chemical fibers and clothing materials at lower costs, but with high quality; (2) increasing manufacturing productivity through the application of technology, strategic factory locations, and Human Resources skills; (3) building functional clothing production capabilities, and; (4) increasing economic scale in both the domestic and export markets.

### Indonesia Textile Export Destination



Source: Company Prospectus

### Indonesia Textile Turnover Percentage



Source: Company Prospectus

We see the current Supply-Chain Shock, or the impediment of textile imports from China due to the impact of the energy crisis which then increases logistics tariffs, is one of the factors for the unfulfilled market demand in Indonesia. CHEM can take advantage of this opportunity, as the utilization of factory capacity can still be increased. Based on data from the Indonesian Filament Yarn and Fiber Association, the textile industry can grow up to 10% in 2022, supported by the utilization of the Textile industry which reaches 72.3%; Garment industry by 84.8%; and the Leather industry by 80.2%.

Based on data from the Central Statistics Agency, the United States is the main destination for the Garment export from Indonesia, having a share of up to 47%; followed by Japan and South Korea, at 9% and 6%, respectively. Meanwhile in the domestic market, the biggest profit comes from sales of Fabric, followed by Garment. Based on this data, we see that CHEM can take advantage of the potential of domestic demand, supported by the Company's competitive advantages.

Source: statista.com, NHKS Research

\*Forecast

Source: statista.com, NHKS Research

\*Forecast

**NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings**

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
2. Rating system based on a stock's potential upside from the date of publication
  - Buy : Greater than +15%
  - Overweight : +5% to +15%
  - Hold : -5% to +5%
  - Underweight : -5% to -15%
  - Sell : Less than -15%

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